C4110-1 N

PENNSTATE

College of Business Administration

Published since 1938

Pennsylvania Business Survey

January 1990

1989 DRAWS TO A CLOSE WITH LITTLE MOMENTUM

Although November may have brought some improvement, trends during the final months of 1989 continue to suggest that economic growth in Pennsylvania is on the decline. This comes on the heels of more than two years of solid gains which apparently left economic activity at a post-recession high at the beginning of 1989. The slowdown comes some six to seven years into the current expansion in the Commonwealth. Nationally, the recovery is the second longest on record, trailing only the expansion of the 1960s, fueled, in part, by the Vietnam War. **As the situation currently stands, the slowdown does not represent the "beginning of the end" of the expansion in Pennsylvania. At worst, recent trends represent the onset of a prolonged period of sub-par, but still positive, growth. At best, they are setting the stage for renewed growth.**

One consequence of the slowdown appears to be some upward pressure on unemployment. Despite a strong rise in employment of more than 100,000, the number of Pennsylvanians officially listed as unemployed in November is up by 50,000 from the previous month on a seasonally adjusted basis. The jobless rate leaped 0.8 percentage point to 5.4 percent, seasonally adjusted. These measures of unemployment represent the highest readings in nearly two years. Trends in December show a holding pattern, suggesting that the November uptick is probably not a "statistical fluke." At the same time, they show that employment remains at a level which is down only slightly from record highs recorded earlier in the year.

Trends in the number of initial claims for unemployment insurance in Pennsylvania during the past several months suggest that **continued upward pressure on joblessness is likely.** Initial claims, a leading indicator of future unemployment trends, have been rising since the final months of 1988 (chart).

Measures of construction activity continue to point down. If anything, **the dropoff in the number of new housing units authorized by permit has become more pronounced of late.** During November, 16.1 percent fewer new units were authorized compared to a year ago. For the year, permits are off more than 15 percent compared to the first 11 months of 1988. On the nonresidential side, 16.5 percent fewer projects were authorized by permit in November while the year-to-date decline has totaled 5.9 percent. The value of construction contracts awarded is also down in November, both from the previous month and from a year ago. Still, employment in the construction industry remains at record high readings.

INITIAL CLAIMS FOR PA UNEMPLOYMENT INSURANCE
(seasonally adjusted)

SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS.

The growth in retail sales remains positive, but far from impressive. October's 3 percent gain over a year ago is apparently not enough to keep up with gains in prices and it falls short of the 3.3 percent advance averaged through the first ten months of 1989. Gains in the U.S. have been stronger than in the Commonwealth in 16 of the past 17 months after a prolonged period in which Pennsylvania outperformed the nation. Jobs in retail trade establishments during November are down on a seasonally adjusted basis from October and are up only a minimal 300 from a year ago. **The rapid pace of expansion in these industries in years past has apparently come to an end.**

For the nonmanufacturing sector as a whole, job levels continue to move forward as they stand at another record high of 4,120,000 in November. Over the course of the year, growth has diminished. During the first half of the year, job growth totaled 1.9 percent from a year ago. Since then, it has come in at 1.5 percent. Over the 1982-1988 period,

New Pennsylvania building permit authorizations (percent change from year ago)

	Nov.	Pct. chg.	Year-to-date	Pct. chg.
Residential	3,175	– 16.1	43,920	– 15.2
Nonresidential	1,254	– 16.5	20,735	– 5.9

Source: U.S. Dept. of Commerce, Bureau of the Census.

growth averaged 2.6 percent each year. **Most likely, this slowdown in nonfactory job growth is simply a reflection of the overall slowing in the economy's rate of growth. Some argue that this slowdown is reflective of an economy at or near full employment.** They contend that job growth has receded as the available pool of workers has dwindled.

Not surprisingly, the service industries continue to exhibit solid job growth. Since November 1988, 51,800 new jobs in these establishments have been added. Health services, the largest industry, has generated 17,400 additional jobs over the year. Business services, the second largest industry, has added 15,000 jobs over the same period. Recent issues of the *PBS* have reported a sharp uptick in the "State and local government" job category of late. Year-over-year comparisons suggest that the bulk of the gain is in local government. Since November 1988, local government jobs are up 7,500 while State government jobs are up just 2,000.

The Commonwealth's manufacturing industries continue to tread water according to recent job trends. Minimal gains in both October and November come on the heels of declines in seven of the eight previous months after adjustment for normal seasonal ups and downs. As

New Pennsylvania motor vehicle registrations (percent change from year ago)

	Total registrations	Pct. change
October	47,299	– 14.9
1989 YTD	574,946	– 6.3
12-month total	689,787	– 4.3

Source: R.L. Polk & Co.

Economic Activity in Pennsylvania	UNADJUSTED DATA 1989 Oct.	1989 Nov.	1988 Nov.	SEASONALLY ADJUSTED DATA 1989 Oct.	1989 Nov.	1988 Nov.	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1989 Oct.	1989 Nov.	1988 Nov.
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)1	5,163*	5,170	5,112	5,116*	5,124	5,065	112.1*	112.2	110.9
Nonmanufacturing									
No. of wage and salary jobs (thous.)	4,111*	4,120	4,049	4,072*	4,078	4,007	126.3*	126.5	124.3
Mining	28	28	29	28	28	29	57.5*	58.1	59.8
Contract construction	257	251	244	243	244	237	132.1*	132.7	128.7
Transportation	152	152	151	148	149	149	92.0*	92.7	92.3
Public Utilities	103	103	104	103	103	104	102.7*	102.5	103.7
Wholesale trade	270	271	272	270	270	272	121.7	122.0	122.4
Retail trade	891*	902	902	885*	884	884	123.4*	123.3	123.2
Finance, insurance & real estate	298*	298	293	298*	299	293	137.1*	137.2	134.8
Service & miscellaneous	1,401	1,399	1,347	1,392*	1,396	1,344	161.3	161.9	155.8
Federal government	139	138	139	140	139	140	109.1	108.8	109.0
State & local government	572*	579	569	564*	566	557	96.8	97.2	95.6
Manufacturing									
No. of wage and salary jobs (thous.)	1,047*	1,048	1,060	1,045	1,046	1,059	77.9	78.0	78.9
Durable goods	591*	593	606	591*	592	605	73.0*	73.1	74.8
Nondurable goods	456*	455	454	454	454	453	85.3*	85.4	85.1
Ave. wkly. hrs. worked by prod. workers	40.6*	40.8	41.6	40.6*	40.4	41.2	102.7*	102.2	104.2
Total wkly. person-hours worked (mils.)	29.3*	29.5	30.3	29.2	29.2	30.0	76.1*	75.9	78.0
Total wkly. payroll (mil. dols.)	312.7*	315.6	315.8	311.8*	310.3	310.6	138.8*	138.1	138.3
Average hourly earnings (dollars)	10.66	10.70	10.41	10.67	10.67	10.38	182.4*	182.4	177.4
Average weekly earnings (dollars)	432.80	436.56	433.06	432.80	430.11	426.84	187.1*	185.9	184.5
Steel production (thous. tons)	883	757	1,081	n.a.	n.a.	n.a.	42.2	38.9	55.5
Industrial electric power sales (mil. kwh)	3,709	3,583	3,753	3,633	3,713	3,858	98.4	100.5	104.5
Mining									
Anthracite coal (thous. net tons)	373	339	307	292	290	267	59.8	59.3	54.6
Bituminous coal (thous. net tons)	7,059	6,497	5,767	6,455	6,650	5,883	91.5	94.3	83.4
Construction contracts awarded (mil. dols.)									
Total	920.6	692.5	772.7*	832.5	741.9	831.3*	258.8	230.6	258.4*
Residential building	383.7	295.2	364.3*	353.8	351.6	430.7*	251.4	249.8	306.0*
Nonresidential building	444.6	310.7	327.3*	363.6	269.6	287.3*	335.2	248.5	264.8*
Nonbuilding (utilities and public works)	92.4	86.6	86.0*	115.1	120.7	113.3*	158.8	166.5	156.3*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,598	5,639	5,529	5,528	5,638	5,524	115.0	117.3	114.9
Unemployed									
No. of persons (thous.)	259	303	250	274	322	267	68.2	80.2	66.7
Rate (percentage of labor force)	4.4	5.1	4.3						
Rate, seasonally adjusted				4.6	5.4	4.7			
Civilian labor force, no. of persons (thous.)	5,857	5,943	5,779	5,802	5,959	5,791	111.4	114.5	111.2
Initial claims for unemployment benefits	87,258	100,857	81,982	100,525	101,772	80,471	70.2	71.1	56.2

Consumer Prices, all items	Urban Indexes (1982-84 = 100) 1989 Oct.	1989 Nov.	1988 Nov.	Percentage Change Month Ago	Year Ago
U.S. city average	125.6	125.9	120.3	0.2	4.7
Philadelphia	130.5	130.1	125.3	–0.3	3.8
Pittsburgh	121.7	n.a.	116.3&	n.a.	4.6

[1] Total includes workers on strike. * = figure revised & = figure for October 1988 n.a. = data not available

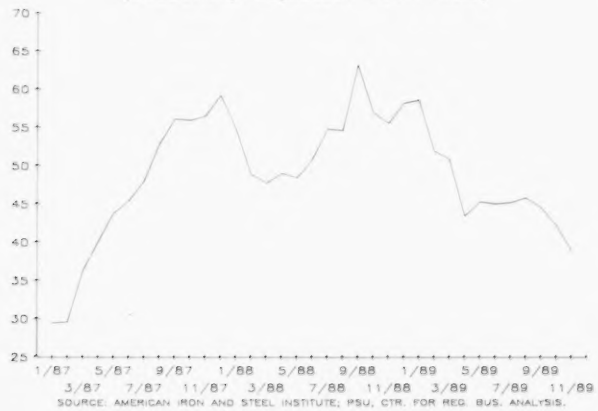
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	October	Pct. chg.	Year-to-date	Pct. chg.
Total	6,767	3.0	65,614	3.3
Durables	2,386	2.2	24,366	0.5
Bldg. mat.		– 0.9		– 4.6
Auto dlrs.		– 3.5		– 3.8
Furniture		19.1		17.9
Other		13.6		7.7
Nondurables	4,381	3.5	41,248	5.1
Gen. mdse.		– 2.0		0.1
Food/grocery		1.1		4.6
Gas		7.1		4.9
Apparel		– 3.9		4.3
Eat/drink		4.9		5.4
Drugs		16.7		12.1
Other		14.4		10.6
Seas. adj. total: October		6,804		
September		6,874		

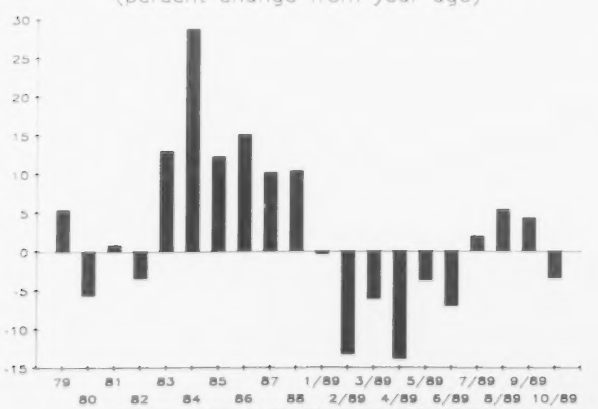
Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census.
Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.
Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability. As a result, only pct. changes are shown.

PA AVERAGE DAILY STEEL PRODUCTION
(seasonally adjusted; 1977=100)



SOURCE: AMERICAN IRON AND STEEL INSTITUTE; PSU, CTR. FOR REG. BUS. ANALYSIS.

PA AUTO DEALERS' RETAIL SALES GROWTH
(percent change from year ago)



SOURCE: U.S. DEPT. OF COMMERCE, BUREAU OF THE CENSUS.

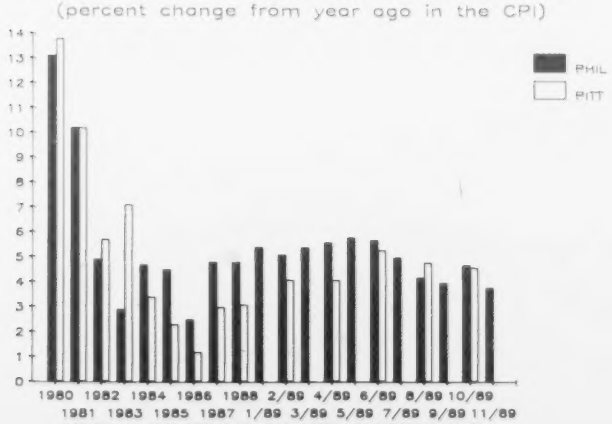
a result, job levels in November fall 12,000 short of year-ago totals. After rising considerably since 1987 following the resolution of a labor-management dispute, average daily steel production in Pennsylvania peaked in late 1988 and has declined since (chart). Because of its role as a supplier to numerous goods-producing industries, the primary metals industry is heavily influenced by trends in the factory sector as a whole. Other indicators of the factory sector's health including hours worked, payrolls, and earnings, also suggest that these industries are struggling. The Pennsylvania Manufacturing Activity Index, despite a slight uptick in November, has been trending down of late, suggesting that output is on the decline.

Nationally, much of the weakness in the factory sector can be traced to the auto industry. In Pennsylvania, auto-related retail sales are down this year after six years of solid gains (chart). Interestingly, there was some positive growth during the third quarter, probably as a result of a rash of vehicle purchases in response to incentives at the close of the model year. The October data suggest a return to negative growth. The apparent sluggishness in auto sales in Pennsylvania continues to be confirmed by trends in new vehicle registrations which continue to decline. Through October, 6.3 percent fewer new vehicles have been registered in Pennsylvania than in the first ten months of 1988.

Price trends in the Pittsburgh and Philadelphia regions merit monitoring in coming months as a change may be in the offing. Based upon changes in the Consumer Price Index (CPI), inflation in Pittsburgh was higher than in the Philadelphia area during the early 1980s (chart). Beginning in 1984, just as the southeastern Pennsylvania economy was expanding briskly and western Pennsylvania was lagging, the situation reversed itself. Recently, price gains in the Pittsburgh area have been more in line with those in Philadelphia. **In August, the increase in the CPI was higher in Pittsburgh than in Philadelphia. In October, the increase in prices was only slightly higher in southeastern Pennsylvania relative to the west. It may be that the more balanced pattern of intrastate growth highlighted in recent issues of the *Survey* is having an impact on price trends.**

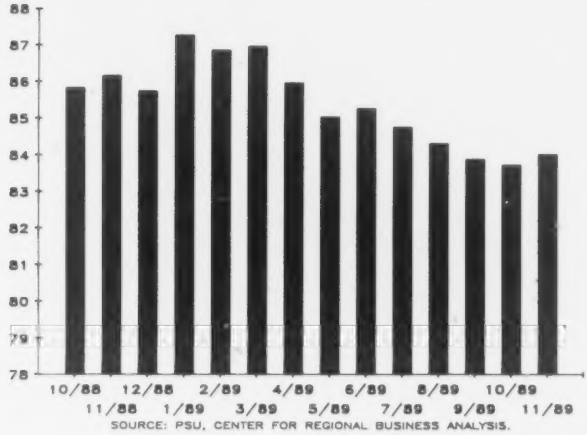
The recent slowing in the pace of economic growth is evident in the Pennsylvania index of coincidental indicators, designed to move with current trends in the economy. The trend throughout 1989 has been down, despite

PHILADELPHIA AND PITTSBURGH INFLATION RATES
(percent change from year ago in the CPI)



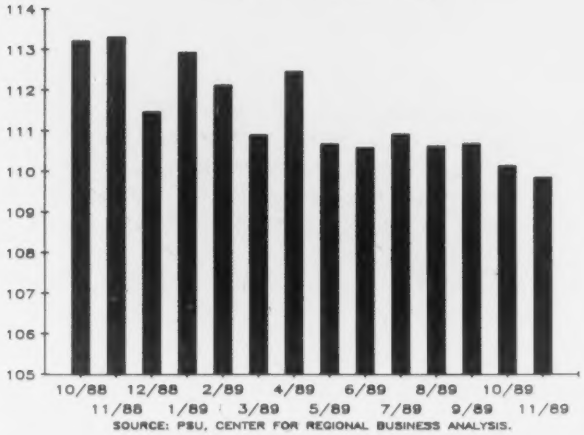
SOURCE: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS.

PENNSYLVANIA COMPOSITE INDEX
OF COINCIDENTAL INDICATORS
(Jan 1972=100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS.

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS.

a slight rise in November when the positives appear to have just outweighed the negatives (chart). Such a trend certainly supports the case of those arguing that the rate of growth in the Pennsylvania economy has slowed of late, an argument presented many times in recent months in the *Pennsylvania Business Survey*. If trends in the Pennsylvania index of leading indicators are a sign of things to come, the next several months are unlikely to bring much relief. The index has increased only four times through the first 11 months of 1989 (chart) and only once since July.

— William D. Anderson

The Pennsylvania State University, in compliance with federal and state laws, is committed to the policy that all persons shall have equal access to programs, admission, and employment without regard to race, religion, sex, national origin, handicap, age, or status as a disabled or Vietnam-era veteran. Direct all affirmative action inquiries to the Affirmative Action Office, 201 Willard Building, University Park, PA 16802; (814) 863-0471.

U.Ed. BUS 90-32

Pennsylvania Business Survey

January 1990 Vol. 31, No. 1

Published monthly by the Division of Research of the College of Business Administration, 103 Business Administration Bldg. II, The Pennsylvania State University, University Park, PA 16802. Subscription rate: $10.00 a year. (ISSN 0031-4382)

J.D. Hammond, Dean of the College
Paul H. Rigby, Associate Dean for Research and Graduate Programs
Rodney A. Erickson, Director of the Center for Regional Business Analysis and Associate Director of the Division of Research
William D. Anderson, Assistant Director of the Center for Regional Business Analysis
Doris J. Bickle, Staff Assistant
Mary Jane Corman, Subscription Coordinator

The content of this publication is not copyrighted and may be reproduced freely, but acknowledgement of source will be appreciated.

PENNSYLVANIA BUSINESS SURVEY
Division of Research of the
College of Business Administration
The Pennsylvania State University
University Park, PA 16802

ADDRESS CORRECTION REQUESTED

Nonprofit org.
U.S. Postage
paid
The Pennsylvania
State University

* 018-01-12002
* SRI
CONGRESSIONAL INFO SERVICE
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814